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August 16, 2004

Governor Susan Bies
Federal Reserve Bank
20th Street and Constitution Ave. NW
Washington, DC 20551

RE: Reconsideration of CRA Proposal Docket No. R-1181

Dear Governor Ries,

As a community banker, I strongly supported the proposal to increase the asset size of banks eligible for the small bank streamlined Community Reinvestment Act (CRA) examination from \$250 million to \$500 million and the elimination of the holding company asset size limit (currently \$1 billion). Community Bank and Trust (\$280M) would have benefited greatly from the reduction of regulatory data collection requirements if the proposal had not been withdrawn by the Federal Reserve Bank in July.

Banks incur significant regulatory burdens and costs compiling data to document CRA performance. We spend approximately 200 hours annually collecting the required data on small business and small farm lending. In addition, we spend approximately 40 hours annually summarizing, analyzing and documenting our charitable contributions to determine if they will qualify for the investment test.

Most institutions receive a satisfactory overall rating. In order for Community Bank and Trust to receive an outstanding overall rating, it would require outstanding ratings on both the lending and service tests due to the fact that we have never received higher than a low satisfactory on our investment test. Basically, we spend numerous hours documenting the required information that will potentially never change our overall CRA rating.

As many commenters have suggested, changes in the industry since the 1995 revisions have rendered the small bank threshold out of date. As the Board points out, "the gap in

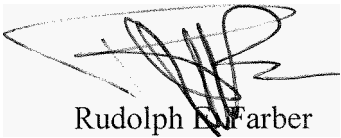
assets between the smallest and largest institutions has grown substantially since the line was drawn at \$250 million in 1995. The number of institutions defined as small has declined by over 2,000 since the threshold was set and their percentage of industry assets has declined substantially.” Consolidation continues in the banking industry where large banks seek to achieve savings through economies of scale. How do you effectively compare a \$500 million dollar bank with a \$500 billion dollar bank using the same examination procedures? A better measure of CRA performance is to evaluate banks against peers within a similar asset size and geographic location.

It is important to recognize that smaller institutions play a vital role in their community development efforts. The very survival of a community bank is directly related to serving the credit needs of their assessment area. Increasing the asset size of banks eligible for the streamlined CRA examination will not relieve small banks from CRA responsibilities. Instead it will enable small banks to focus more resources on providing innovative products and delivery mechanisms to our customers rather than generating burdensome lending data reports.

We would encourage the Federal Reserve to reconsider their sudden withdrawal of this important proposal. Our bank has been a Federal Reserve member for many years and we have always found your agency to be reasonable, fair and willing to listen to your members. It would significantly reduce the regulatory burden for the institutions effected. Per the Board’s estimates, the change would approximately halve the number of institutions subject to the large retail test (to roughly 11% of all insured depository institutions), but the percentage of industry assets subject to the large retail test would decline only slightly, from a little more than 90% to a little less than 90%.

I would like to close by quoting a comment from the FDIC Vice Chairman’s speech concerning Regulatory Burden on America’s Community-Based Banks that was delivered to a subcommittee of the U. S. House of Representatives on May 12, 2004. Mr. Reich stated “I am a strong proponent of market forces determining economic outcomes. If community banks lose out in a fair and square competition with credit unions or larger banks, so be it—let the market speak and the chips fall where they may. *But if smaller banks will be weakened in the market not by competition or technology, but inadvertently or unintentionally by the disproportionate effect of regulatory burden, and by competition from financial institutions not subject to the same regulations, that outcome seems to be inequitable and unacceptable. We need to think about the appropriate public policy response to prevent this outcome.*”

Respectfully,

A handwritten signature in black ink, appearing to read 'Rudolph W. Farber', is written over a light gray rectangular background.

Rudolph W. Farber
Chairman